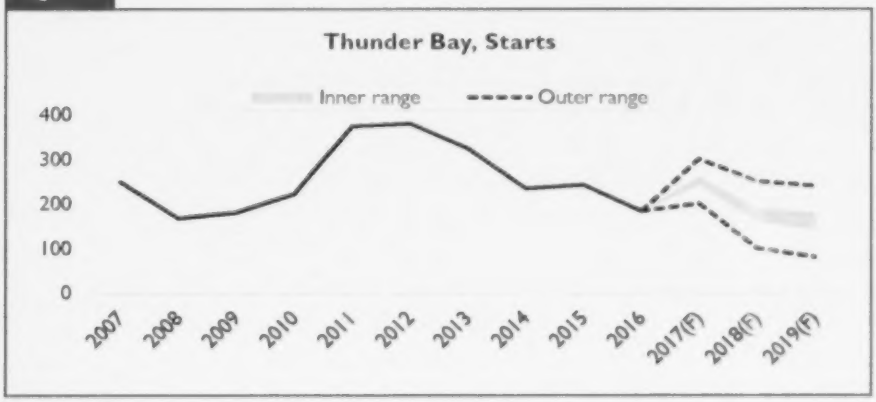
HOUSING MARKET OUTLOOK

Thunder Bay CMA

CANADA MORTGAGE AND HOUSING CORPORATION

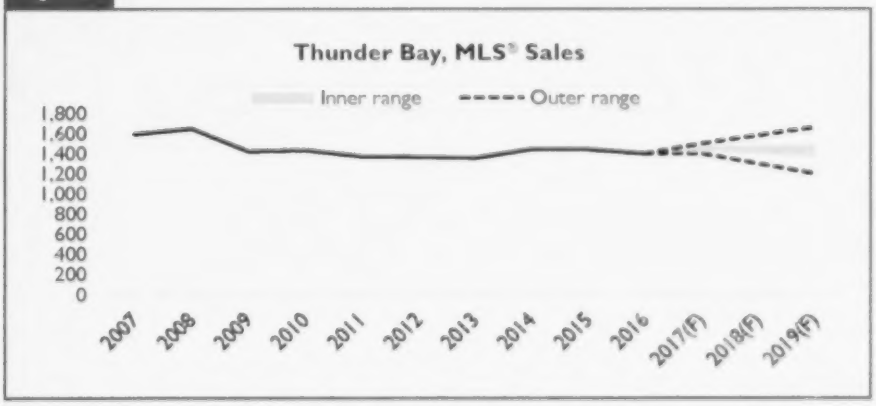
Date Released: Fall 2017

Figure 1



Source: CMHC; (F) = CMHC Forecast

Figure 2



Source: Thunder Bay Real Estate Board, data are for Districts 1 and 2 only; (F) = CMHC Forecast; MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Highlights[1]

- Total housing starts are expected to increase in 2017 and decline in each of 2018 and 2019
- The resale market will be characterized by weak seller's conditions over the forecast horizon resulting in price growth that is slightly above the rate of inflation
- The average vacancy rate is expected to continue increasing through to 2019

New Ownership Market

Total housing starts in the Thunder Bay Census Metropolitan Area (CMA) are expected to increase in 2017 and subsequently decline in both 2018 and 2019. Driving the increase in 2017 are multi-unit housing starts which are expected to finish the year at their highest level since 2013. Recent demand for high-density new builds is emanating primarily from the CMA's growing senior population (65+); the only broad age group to experience positive growth between the 2011 and 2016 censuses.

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

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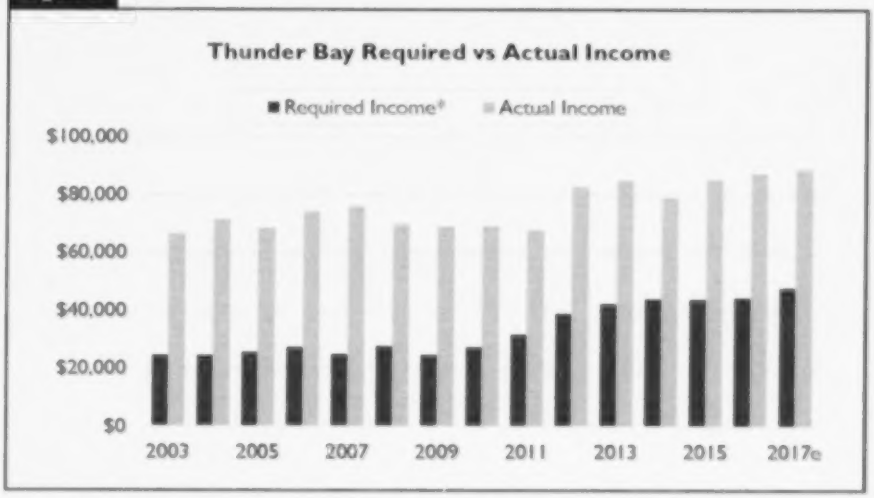
International students, who are enrolling in record numbers to Thunder Bay's post-secondary institutions, are also supporting the construction of multi-unit, purpose-built rentals and conversion projects. Given the high level of activity in 2017, multi-unit starts are expected to decrease in both 2018 and 2019 and will be more in line with their longer term average during these two years.

Single-detached housing starts have been on the decline since 2012 and are expected to continue this downward trajectory through the forecast horizon. Corroborating this continued drop-off are building permits for singles, a proxy for future starts, which are trending at historic lows. Volatile employment growth has been and will continue to be unsupportive of demand for new, often more expensive, single-detached homes.

Figure 3



Sources: CMHC, TBREB, adapted from Statistics Canada, e=estimate
*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32% gross debt service ratio.
Mortgage carrying costs are calculated on the average MLS® price, a 10% down payment, the fixed five-year mortgage rate and the longest available amortization.

Existing Home Market

Sales through the Thunder Bay Real Estate Board (TBREB) are expected to remain relatively flat between 2017 and 2019 owing to a number of factors which will not provide the fundamental support for an increase in demand. Resale demand is strongest in the $200,000 to $280,000 range, yet increasingly fewer active listings in this range has left much of this demand unsatisfied. With the average sales price forecast to rise, the average list price will follow suit, which will keep sales relatively stifled and active listings growing. Volatile employment growth and projected higher mortgage rates will also restrain demand over the horizon, albeit slightly.

Year-to-August 2017 prices were up 7% due to weak seller's conditions initiated by listings declining at a faster rate than sales in the lead up to 2017. Confirming the weak seller's conditions currently present are indicators such as sales-to-new listings, sale-to-list price, and days on market all of which have been trending quite flat. Similar conditions are projected to continue into the forecast horizon with sales-to-new listings hovering around 70%. This is expected to result in price growth that is slightly above the rate of inflation, incrementally eroding affordability.

Rental Market

The vacancy rate is anticipated to increase to 5.5% in 2017 as 41 new units worth of rental supply enter the market. An additional 76 units, at minimum, may come on board in 2018 which will initiate another 0.5% jump to the vacancy rate for that year. Demand over the horizon will be arising primarily from international students who are currently struggling to find on-campus housing as well as a growing number of downsizing senior's households. The growth in supply is expected to exceed the demand generated by these and other sources. Higher vacancy rates will keep rent growth minimal.

Economics and Demographics

Total employment in the CMA has grown in each of the first three quarters of 2017. Driving growth are the region's largest employment sectors: healthcare, education, and trade with an additional boost provided by federal and municipal spending on local transit improvements. Employment this year will grow modestly at a rate of 0.7% and will fall by 0.1% in 2018 on the

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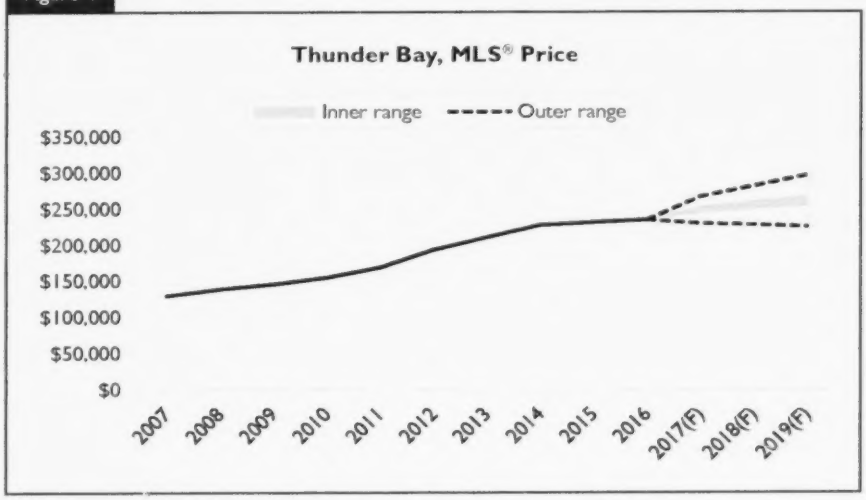
heels of a declining population and relatively bleak commodity markets. With respect to migration; incoming international students coupled with intraprovincial inflows from seniors accessing health services are both expected to keep net outflows negligible in 2017 and 2018. Conversely, the trend of deaths outstripping births will continue to result in net declines to population over the forecast period.

A potential bright spot for the local economy has been a recent provincial commitment to developing road infrastructure around the Ring of Fire mining camp. Thunder Bay stands to benefit as a hub city for northwestern Ontario once production at the camp begins. That said, any economic benefits arising from this project will be tied to metals prices which, despite showing some recent strength, remain weak relative to historic levels and are expected to weaken or stabilize over the horizon according to consensus forecasts. Should commodity prices rise unexpectedly, it is conceivable that prospective northern Ontario mineral projects will come online at an accelerated rate. This will likely push starts, sales, and prices towards the higher end of our stipulated outer range forecasts. A sudden downturn in commodity prices coupled with economic and trade-related uncertainty surrounding the United States will have the opposite effect causing our forecasted variables to trend towards their lower outer range.

Figure 4



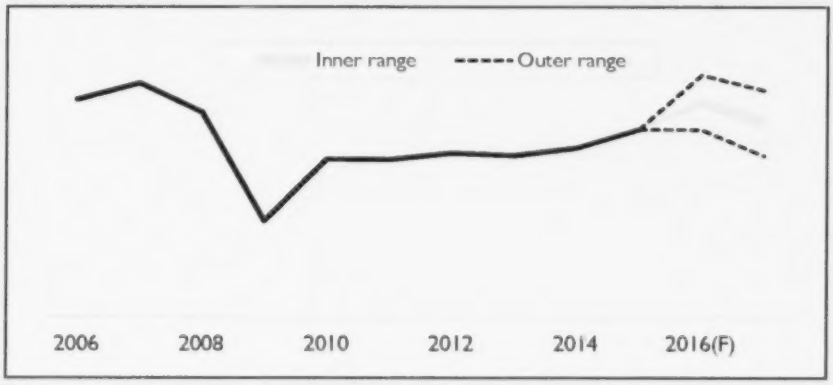
Source: Thunder Bay Real Estate Board, data are for Districts 1 and 2 only; (F) = CMHC Forecast; MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary
Thunder Bay CMA
Fall 2017

	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	168	164	139	120	130	110	120	90	110
Multiples	66	78	44	120	130	50	70	50	70
Starts - Total	234	242	183	240	260	160	190	140	180
Resale Market									
MLS® Sales	1,443	1,442	1,400	1,430	1,470	1,400	1,480	1,370	1,490
MLS® Average Price($)	227,262	234,692	235,470	242,600	252,800	248,000	260,550	252,800	268,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	2.3	4.6	5.0	5.5	6.0	6.5
Two-bedroom Average Rent (October)($)	888	917	940	970	990	1,010
Economic Overview						
Population	124,999	124,471	124,166	123,800	123,300	122,660
Annual Employment Level	61,500	59,700	60,100	60,500	60,500	60,400

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. Thunder Bay MLS® data are taken from Districts 1 and 2 of the Thunder Bay Real Estate Board

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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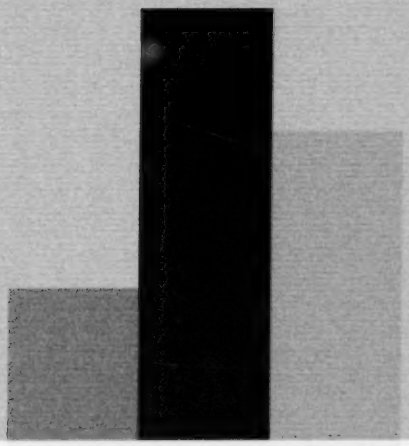

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